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LITTLE HOOVER COMMISSION
GOVERNOR'S REORGANIZATION PLAN
Tuesday, March 24, 2012
Sacramento, California
9:30 a.m.

Good morning, Members of the Commission. My name is Fred Kreger. I am the President-Elect and Government Affairs Committee Chair for the California Association of Mortgage Professionals and a licensed mortgage loan originator in Santa Clarita, California. The California Association of Mortgage Professionals represents almost 2,000 mortgage professionals throughout California. Because of the large impact that the Department of Real Estate (DRE) has on our membership and profession, we take special interest in the Governor's Reorganization Plan specific to the consolidation of professional licensing functions, such as the DRE, within the Department of Consumer Affairs (DCA).

At this time our organization cannot support the Reorganization Plan for two main reasons.

The first reason relates to the professionalism and ethical lending practices of mortgage professionals. It is feared that the restructuring of the DRE as a bureau within the DCA would fundamentally damage the regulatory and enforcement capabilities of the department. The elimination or consolidation of the department's well-developed legal staff and enforcement entity would have a negative consumer and professional impact within California. Without proper enforcement resources and knowledge, bad actors may enter or reemerge within the mortgage loan arena. This result would most definitely reinjure the fragile housing market recovery in California.

The level of specialized knowledge needed by DRE staff to aide with consumer and licensee issues is great. The complexity of the Department of Real Estate and their regulatory responsibilities are far more complicated than other licensing departments. The DRE should not be cavalierly lumped with other licensing boards just for the sake of streamlining government departments and staff. This decision could lead to delayed responses to licensee requests and consumer questions, and loosened oversight of the profession.

The second reason relates to the Consumer Recovery Account (Recovery Account) maintained by the DRE. The Recovery Account is funded from a portion of the fees paid by licensees. This account enables a person who has been defrauded by a real estate licensee to recover a portion, if not all, of his or her actual loss when the licensee has insufficient personal assets to pay for that loss. The Governor’s current proposal does not address the Recovery Account, which leads us to believe that the department's special account reserves would be transferred into the General Fund. This action would have serious impacts on all mortgage brokers and companies within California.

As it stands with the current structure of DRE and the Recovery Account, California mortgage brokers are not required to purchase surety bonds or prove a minimum net worth in order to meet the SAFE Act requirements. Section 1508(d)(6) of the SAFE Act outlines that states must set minimum net worth or surety bond requirements or establish a recovery fund paid into by loan originators. Without the Recovery Account, mortgage brokers in California will fall out of compliance with the SAFE Act and will be required to purchase surety bonds or prove minimum net worth. The additional expense of purchasing surety bonds will force many individuals and companies out of the profession. This action will change the livelihoods of these individuals and cause additional turmoil within the housing market and profession.

In closing, this portion of the Governor’s Reorganization Plan will not achieve further state efficiency, but rather require the state to create new regulations to comply with the SAFE Act, invoke instability within our profession and open the door to more consumer harm. We ask the commission to take the Governor’s proposal to restructure the Department of Real Estate under critical review.

Thank you for your time and I am open to any questions the commission may have.